Dow Jones Newswires

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By Matthew Walls
Of DOW JONES NEWSWIRES

LONDON (Dow Jones)--The gloomy outlook hanging over the mining and metals industry is a buying opportunity for long-term investors, said the head of **Klesch** & Co., one of the biggest private-equity firms in the industry.

While a lot of investors are liquidating mining stocks in a panic and junior mining companies are struggling to get financing, **Klesch** & Co. is "looking hard" at copper and zinc assets, said Chairman Gary **Klesch** in an interview with Dow Jones Newswires Wednesday.

"If you're going to make a long-term investment, you're doing so with the expectations that with commodities you're going to have ups and downs," **Klesch** said in an interview with Dow Jones Newswires. "You try to see those ups and downs as an opportunity to buy."

A sharp decline in zinc prices this year hasn't deterred **Klesch** & Co. from sizing up zinc operations, **Klesch** said. The company expects zinc prices to recover between 2010 and 2012, when the market reverts to a supply deficit.

It is also considering buying copper operations, as they are a natural hedge with aluminum, in which the company is heavily investing, he said.

From being an unknown in the industry, London-based **Klesch** & Co. has rapidly built a presence in the past two years. In 2007, it signed an agreement in principle to acquire the 290,000-ton Zeeland Aluminium smelter in the Netherlands from the former Alcan, and it is now in talks with European steelmaker Corus to buy its two aluminum smelters in Germany and the Netherlands.

The company is also building an $8 billion industrial complex in Libya that includes a 750,000 tons a year aluminum smelter and a 300,000 barrel-a-day oil refinery, though greenfield projects aren't normally what the company looks for.

Klesch said the company's objective is to invest in operating assets, as its investment horizon is around 10 years and new mines are too capital-intensive for its business model.

"Our (model) is largely existing operations where we can expand the operations or improve the operations," **Klesch** said. The company looks at investing anywhere along the supply chain, and is aiming for returns "in the high 20s and low 30s" percent.

Klesch said the heavy declines in mining equities are for the most part due to the fall in metal prices, which it sees as a temporary dip in the commodity bull run and therefore a buying opportunity.

Given the volatility in metal prices and uncertainties that plague long-term forecasts, **Klesch** prefers to rely on futures prices in planning its investment strategy, rather than using a consensus of analyst estimates as traditional mining finance houses do.

"We think that is a more relevant price than what analysts say," said ***Klesch***. "Opinions I can't take to the market, whereas forward prices, I can cash that."

Hedging production is one way to take advantage of high forward prices, and the company has an "active trading platform," ***Klesch*** said.

The sell-off in mining stocks has opened up investment opportunities for investors like ***Klesch***. But it has come at a bad time for junior miners, which were already struggling to get financing amid the credit crisis and which now seem even less attractive. "In this credit crunch, lots of deals have been shown to us that can't get financing," ***Klesch*** said.

While some companies had attractive projects, many only had leases on properties that hadn't yet advanced far beyond the licensing stage. "In the froth of the market, a lot of guys went out and got a lease on a property and had a flotation because of the lease."

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